IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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Old versus New: The current debate whether the structure of the U.S. economy has changed resembles blindfolded persons describing an elephant by touch. Many feel the record longevity of the current expansion reflects a rare alignment of favorable factors that continues to propel growth. Given this serendipitous arrangement of favorable interest rates, strong investment, low inflation, and soaring productivity, this camp believes the economy is still far from topping the current business cycle's peak. However, at some point the summit will be reached. When this point is reached, imbalances will arise and threaten further growth. Thus, as with all expansions, the current one will eventually succumb and the economy will head downhill. Not everyone is in this party, however. This is the so-called "new economy." After reviewing the same economic data, this group believes that the economy has fundamentally changed. Like the industrial revolution before it, the information revolution is reshaping the U.S. economy. As a result, many of the factors that halted past expansions are no longer a threat. The promised benefits of the technological age have finally arrived as computer technology achieves critical mass. For example, people currently entering the labor force are the initial wave of workers that have been exposed to personal computers their whole lives. As the use of technology becomes more widespread and the labor force becomes even more computer savvy, productivity is expected to soar. Ironically, as computers have grown in power and sophistication, they have become easier to use. While both schools of thought may have different opinions on what is fueling the record economic expansion, both generally agree that the economy will continue to grow over the next few years.

Idaho's Top-Ten Performance: While experts ponder the precise impacts of technological changes, everyone agrees they have been positive and significant. In its September 2000 Gross State Product (GSP) estimates, the U.S. Department of Commerce reported the states that depended on both high-tech manufacturing and business services enjoyed the strongest annual average growth from 1992 to 1998. These results are summarized in the accompanying table. Arizona tops the state growth sweepstakes; its GSP grew an average of 7.5% per year over this period. This was nearly twice as fast as the nation's 3.9% pace. Of the ten fastest growing states, eight were in the West. Included in this group was Idaho, whose 6.1% growth made it the eighth fastest growing state. (Interestingly, if you start in 1987 when Idaho began its current expansion, the Gem State is actually the third fastest growing state.) There is a significant difference between the Gem State's high-tech sector and that of the nation. Namely, Idaho's high-tech sector is heavily dependent on manufacturing—while the U.S. relies more on services. Over the past five years, the number of high-tech service jobs in the U.S. has increased 8.9% annually, while the number of high-tech manufacturing jobs has risen just 0.7% per year. In contrast, the number of high-tech manufacturing jobs in Idaho has increased 6.2% annually from 1994 to 1999. Over this same period, the real output for the Gem State's electronic equipment sector rose an astounding 48.2% per year and its industrial machinery production grew over 20% annually. The recent surge should provide the momentum for future growth. Standard & Poor's DRI forecast shows both Idaho GSP and nonfarm employment growth are ranked in the top ten through 2005.

Average Annual Growth in Inflation-Adjusted Gross State Product, 1992-98

Rank	*State*	*Growth Rate*
1	Arizona	7.5%
2	Oregon	7.2%
3	Nevada	6.9%
4	Utah	6.9%
5	Colorado	6.6%
6	New Hampshire	6.3%
7	New Mexico	6.2%
8	***Idaho***	***6.1%***
9	Georgia	5.8%
10	Texas	5.6%
11	North Carolina	4.9%
12	Washington	4.4%
13	Florida	4.4%
14	Minnesota	4.3%
15	Indiana	4.2%
16	Wisconsin	4.1%
17	Massachusetts	4.1%
18	Kentucky	4.1%
19	Louisiana	4.1%
20	South Dakota	4.1%
21	Michigan	4.1%
22	Tennessee	4.1%
23	Iowa	4.0%
24	Mississippi	4.0%
25	Illinois	4.0%
26	Virginia	3.9%
27	South Carolina	3.9%
28	Delaware	3.8%
29	Arkansas	3.7%
30	Missouri	3.7%
31	Nebraska	3.6%
32	Ohio	3.5%
33	Wyoming	3.4%
34	Kansas	3.4%
35	California	3.2%
36	North Dakota	3.2%
37	Alabama	3.2%
38	Connecticut	3.1%
39	New Jersey	3.0%
40	Oklahoma	3.0%
41	Maryland	2.9%
42	Rhode Island	2.8%
43	Vermont	2.8%
44	West Virginia	2.7%
45	Pennsylvania	2.7%
46	Montana	2.7%
47	New York	2.7%
48	Maine	2.5%
49	Alaska	-0.4%
50	Hawaii	-0.5%

Source: Bureau of Economic Analysis, U.S. Dept. of Commerce

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General Fund Update

As of August 31, 2000

	$ Millions		
Revenue Source	FY01 ExecutiveEstimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,022.1	135.9	141.8
Corporate Income Tax	136.4	11.1	6.4
Sales Tax	665.7	115.7	116.6
Product Taxes[1]	20.6	3.6	3.6
Miscellaneous	106.6	20.4	14.3
TOTAL GENERAL FUND[2]	**1,951.4**	**286.7**	**282.7**

1 Product Taxes include beer, wine, liquor, and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2000

General Fund revenue appears weaker than it actually was in August. Although reported revenue is $10 million lower than predicted for the month, $5 million of this is due to a transfer that did not occur as originally planned. Cumulative revenue is reported at $4.0 million lower than expected, but would actually be $1 million higher than predicted had the transfer occurred as scheduled.

Individual income tax collections in August were $1.2 million lower than projected due to a combination of lower-than-predicted filing payments ($1.2 million) and higher-than-expected refunds ($0.2 million). Withholding collections were exactly on target in August, and miscellaneous diversions were slightly lower than anticipated ($0.2 million). This minor weakness is of no concern, since on a year-to-date basis, the individual income tax is $5.9 million ahead of expectations (as of August 31).

The corporate income tax was $3.7 million less in than was anticipated. This brings the year-to-date corporate income tax collections $4.7 million below the $11.1 million that was forecasted. While not yet a cause for alarm, the corporate income tax appears to be living up to its reputation as the most volatile of Idaho's major revenue sources. The weakness in August was spread over all components. Filing collections were at $0.8 million lower than projected, quarterly estimated payments were $1.0 million lower than expected, and refunds were $1.9 million higher than expected.

Sales tax collections were remarkably stable in August with $0.4 million more in General Fund receipts than were expected. This brings the year-to-date total to $0.9 million above expectations.

Product taxes once again came in exactly on target. Miscellaneous revenue would have been very close to August's predicted amount if a $5 million transfer from the Department of Environmental Quality's Water Pollution Control Fund had been made in the time frame originally anticipated. The January *Idaho Outlook* will contain the next FY 2001 revenue forecast update, and all predicted values will be recalibrated at that time.